



Thermo Fisher Scientific (TMO)

Updated October 25th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$419	5 Year CAGR Estimate:	13.0%	Market Cap:	\$161.9 B
Fair Value Price:	\$473	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	12/14/2023
% Fair Value:	89%	5 Year Valuation Multiple Estimate:	2.5%	Dividend Payment Date:	01/16/2024
Dividend Yield:	0.3%	5 Year Price Target	\$762	Years Of Dividend Growth:	6
Dividend Risk Score:	A	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Thermo Fisher Scientific Inc. is the world leader in serving complex analytical challenges, helping its customers accelerate life sciences research, improving patient diagnostics, and increasing productivity in global laboratories. The company's operational segments, along with their respective % of revenues, are: Diagnostics & Healthcare (28%), Pharma & Biotech (45%), Industrial applications (13%), and Academic & Government (14%). Thermo Fisher generates around \$41 billion in annual sales and is based in Waltham, Massachusetts.

On October 25th, 2023, Thermo Fisher reported its Q3 results for the period ending September 30th, 2023. For the quarter, revenues came in at \$10.57 billion, 1% lower compared to last year. This was solely driven by an organic revenue decline of 1%.

The adjusted operating income margin remained quite assertive at 22.4%, growing from last year's 22.2% due to lower operating expenses. Thus, adjusted EPS rose by 12 to \$5.69.

Management continued to invest in its industry-leading scale in high-growth and emerging markets. They also advanced their proven growth strategy, launching a range of high-impact, innovative new products, including the groundbreaking EXENT Solution in Europe. This is an offering from Thermo Fisher's protein diagnostics business that helps diagnose and monitor patients with blood protein abnormalities.

For fiscal 2023, management cited macroeconomic uncertainty and revised their earlier outlook. The company now expects adjusted EPS to land at \$21.50 (down from between \$22.28 and \$22.72 previously). We have applied the updated figure to our estimates. However, all past figures are on a GAAP basis.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$3.53	\$4.76	\$4.95	\$5.12	\$5.63	\$7.31	\$9.24	\$16.10	\$19.62	\$17.75	\$21.50	\$34.63
DPS	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.68	\$0.76	\$0.88	\$1.04	\$1.20	\$1.40	\$2.82
Shares¹	360.3	398.2	399	395	395	402	400	396	394	392	386	375

Thermo Fisher's growth over the past decade has been phenomenal, constantly improving its operations and expanding its margins, resulting in an EPS CAGR of 19.7% up until 2022. The pandemic was proven a key catalyst for the company, as its healthcare operations were massively boosted, resulting in record financials. Thermo Fisher has been taking advantage of its magnified cash inflows to increase its global presence, closing various acquisitions year-to-date, such as those of Mesa Biotech and PPD.

We retain our EPS growth expectations of around 10% in the medium-term as the company gradually expands its capacities to meet the underlying demand for its products and services. In terms of dividend payouts, management has been intentionally keeping payouts low relative to its net income as it reinvests the majority of its profits to grow the business. We retain our growth estimates to an annualized rate of 15% going forward. DPS growth could be higher, as

¹ Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Thermo Fisher could comfortably accelerate its dividend growth. Still, we remain prudent. The company repurchased \$3 billion worth of stock last year. Buybacks should continue to contribute to EPS growth.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.6	25.7	31.0	21.2	29.0	32.9	38.5	31.4	29.0	31.0	19.5	22.0
Avg. Yld.	1.0%	0.7%	0.5%	0.4%	0.4%	0.3%	0.3%	0.3%	0.2%	0.2%	0.3%	0.4%

Over the past decade, shares have largely hovered between 20 and 30 times their underlying earnings. The stock is currently trading at 20.7 times management's expected adjusted EPS for FY2023, which is modestly lower from our target multiple. Regarding the company's dividend, it has mostly been a token of shareholder returns, as most of the bottom-line is reinvested back into the business. For example, while profitably snowballed from 2013 to 2017, dividends were held constant as the company was expanding its global infrastructure capacities, which ended up paying off greatly. For this reason, the yield has remained exceptionally low. Despite our rapid DPS growth estimates, we expect it to continue to be on the small side and only marginally contribute to shareholder returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

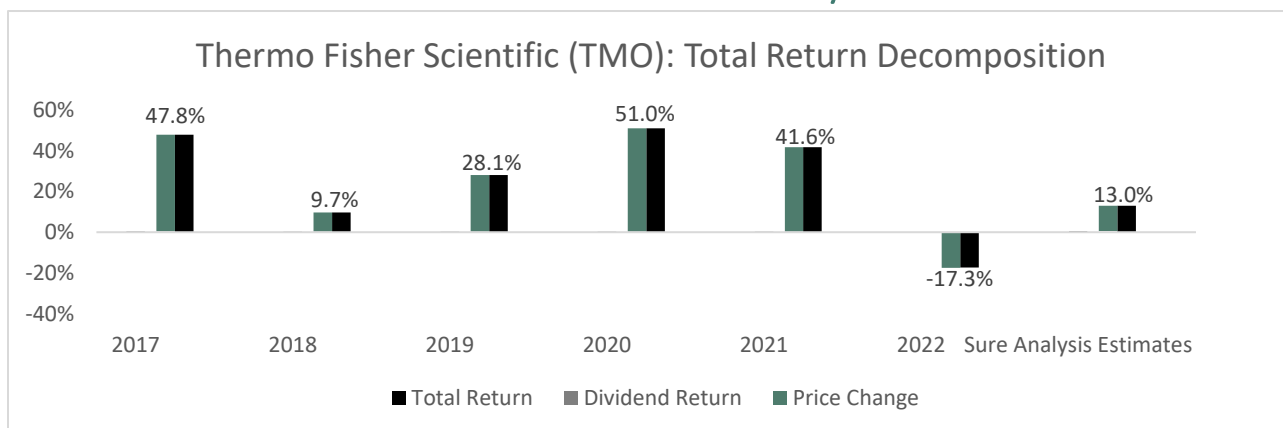
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	17.0%	12.6%	12.1%	11.7%	10.7%	9.3%	8.2%	5.5%	5.3%	6.8%	6.5%	8.1%

In terms of its payout ratio, dividends remain exceptionally safe and should only continue growing from here. The company continues to benefit from the trusted partner status that it has earned over many years with its pharma and biotech customers. As the company continues to expand its international diagnostics capacity, we can see its strong momentum lasting over the next few years. Additionally, Thermo Fisher is financially sound, featuring a \$6.1 billion cash position and a healthy net debt/EBITDA ratio of ~3. Combined with the company's ultra-low-cost of debt of around 2.1% due to leveraging its strong financials, we believe that Thermo Fisher's robust growth will continue, further bolstering its competitive advantage in the life-sciences sector.

Final Thoughts & Recommendation

Shares of Thermo Fisher have declined notably during the past two years despite its strong financial performance. While management chose to revise their guidance lower in the company's Q3 report, Thermo Fisher is set to remain highly profitable. We expect annualized returns of 13% through 2028, powered by TMO's earnings growth and the small yield, further boosted by the potential for modest valuation tailwinds. We have upgraded the stock rating to a buy.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	13090	16890	16965	18274	20918	24358	25542	32220	39210	44920
Gross Profit	5529	7492	7756	8372	9448	10857	11328	16500	19640	18970
Gross Margin	42.2%	44.4%	45.7%	45.8%	45.2%	44.6%	44.4%	51.2%	50.1%	42.2%
SG&A Exp.	3446	4896	4612	4971	5504	6057	6144	5764	8007	8993
D&A Exp.	1000	1685	1688	1758	2033	2267	2277	2325	2592	3381
Operating Profit	1687	1905	2452	2647	3057	3833	4181	7893	10220	8507
Op. Margin	12.9%	11.3%	14.5%	14.5%	14.6%	15.7%	16.4%	24.5%	26.1%	18.9%
Net Profit	1273	1894	1975	2022	2225	2938	3696	6375	7725	6950
Net Margin	9.7%	11.2%	11.6%	11.1%	10.6%	12.1%	14.5%	19.8%	19.7%	15.5%
Free Cash Flow	1728	2192	2519	2814	3497	3785	4047	6815	6789	6911
Income Tax	40	192	-44	-1	201	324	374	850	1109	703

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	31863	42852	40834	45908	56669	56232	58381	69050	95120	97150
Cash & Equivalents	5826	1344	452	786	1335	2103	2399	10320	4477	8524
Acc. Receivable	1942	2474	2545	3049	3879	4136	4349	5741	7977	8115
Inventories	1495	1860	1992	2213	2971	3005	3370	4029	5051	5634
Goodwill & Int.	19575	32953	31586	35297	41974	40325	39728	38730	62040	58640
Total Liabilities	15007	22304	19484	24368	31256	28646	28706	34540	54150	53010
Accounts Payable	692	821	822	926	1428	1615	1920	---	2867	3381
Long-Term Debt	10487	14564	12472	16627	21008	18990	17752	21740	34870	34490
Total Equity	16856	20548	21350	21540	25413	27586	29675	34510	40790	43980
LTD/E Ratio	0.62	0.71	0.58	0.77	0.83	0.69	0.60	0.63	0.85	0.78

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.3%	5.1%	4.7%	4.7%	4.3%	5.2%	6.4%	10.0%	9.4%	7.2%
Return on Equity	7.9%	10.1%	9.4%	9.4%	9.5%	11.1%	12.9%	19.9%	20.5%	16.4%
ROIC	5.1%	6.1%	5.7%	5.6%	5.3%	6.3%	7.9%	12.3%	11.7%	9.0%
Shares Out.	366	402	402	397	398	406	403	399	397	394
Revenue/Share	36	42	42	46	53	60	63	80.8	98.77	114.00
FCF/Share	5	5	6	7	9	9	10	17.1	17.10	17.54

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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